

## DAIRY INSTITUTE *of California*

September 24, 2004

The Honorable A.G. Kawamura, Secretary  
California Department of Food and Agriculture  
1220 N Street  
Sacramento, CA 95814

Dear Secretary Kawamura:

Dairy Institute of California is requesting that the Department call a hearing to consider changes to the Class 1 pricing formulas in Northern and Southern California. Dairy Institute of California is a trade association representing over 70 percent of the fluid milk, cultured milk products, and frozen dairy products processed in the state. The attached extracts of the Stabilization and Marketing Plans for Market Milk for the Northern and Southern California Marketing Areas contain proposed changes to Class 1 pricing formulas and comprise Dairy Institute's petition for this hearing. This hearing is being requested pursuant to Division 21, Part 3, Chapter 2, Article 4 through Article 9 of the Food and Agricultural Code, including Sections 61891 through 62079.

### Reasons why changes are needed:

Dairy Institute's members believe that an adjustment to Class 1 prices is necessary to ensure that bulk milk produced by California producers remains competitive with milk supplied by producers from outside the state. Currently, a producer from outside California has an incentive to ship milk to a California processor if the price he receives for his milk is greater than his local "blend" milk price plus the additional cost of shipping milk to a California plant. Likewise, a California processor has an economic incentive to procure milk from outside the state when the price it is charged is less than the applicable California Class 1 price for its plant. Plants in Southern California have an especially strong incentive to procure milk from outside the state because of the close proximity of the Arizona milk supply, much of which is located in Maricopa County, and because of the relatively lower blend price, as compared to California's Class 1 price, paid to producers in Arizona.

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Based on CDFA and USDA data, the difference between the Southern California Class 1 price and the Arizona blend price averaged \$1.677 per hundredweight during the January 2000 to July 2004 period. Dairy Institute has estimated the incremental cost of hauling milk from Maricopa County, Arizona to the closest California Class 1 plants in Riverside, California to be approximately 77.2 cents per hundredweight. Therefore, plants in Southern California have as much as a 90.5 cents per hundredweight incentive to procure out-of-state milk for their plants. Likewise, Arizona producers could earn as much as 90.5 cents per hundredweight more for shipping bulk milk to California rather than to their local plant.

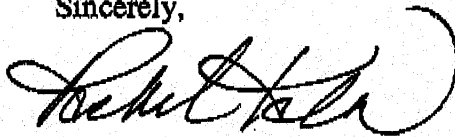
This incentive for out-of-state bulk milk to move to California Class 1 plants must be eliminated if California producers are to continue benefiting from the higher-valued Class 1 market. A reduction in the Class 1 price is likewise necessary to improve the competitive position of California processors with respect to an unregulated Class 1 processor located outside the state. This processor is selling packaged milk products in California and utilizing his lower raw milk cost to take business away from California-based processors who must pay a higher, regulated price for their milk.

**Description of requested changes**

Dairy Institute proposes that the Commodity Reference Price (CRP) adjuster employed in the calculation of the Class 1 solids not fat and fluid carrier prices be changed from its current value of +\$0.464 per hundredweight to a new value of - \$0.441 per hundredweight. These changes should be made to both the Northern (Plan 44) and Southern (Plan 59) California Stabilization and Marketing Plans. The proposed changes will make California-produced bulk milk competitive with out-of-state bulk milk and will help California's producers retain this highly valuable market.

Dairy Institute requests that a hearing to consider our petition be called so that any changes resulting from the hearing could be implemented as soon as possible.

Sincerely,



Rachel Kaldor  
Executive Director

cc David Ikari  
Kelly Krug

**Southern California Stabilization and Marketing Plan (Plan 59), Proposed Changes:****Article III****Class Prices**

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

- (A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ten cents (\$0.10), and the result multiplied by a yield factor of 1.2.
  - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus forty six and four tenths cents (\$0.464)~~ *less forty four and one tenth cents (\$0.441)*, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.
  - (3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus forty six and four tenths cents (\$0.464)~~ *less forty four and one tenth cents (\$0.441)*, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8.

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**Northern California Stabilization and Marketing Plan (Plan 44), Proposed Changes:****Article III****Class Prices**

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

- (B) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:
- (1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ten cents (\$0.10), and the result multiplied by a yield factor of 1.2.
  - (2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus forty six and four tenths cents (\$0.464)~~ **less forty four and one tenth cents (\$0.441)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.
  - (3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, ~~plus forty six and four tenths cents (\$0.464)~~ **less forty four and one tenth cents (\$0.441)**, less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8, and then \$0.0031 per pound subtracted from the result.

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